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February 18, 2009

## **AGENDA ITEM 7b**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Regional Pricing Update
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

To help stabilize CalPERS' health program risk pool, the Board of Administration approved regional pricing for contracting agency members in Basic plans, commencing in 2005 for the following regions: Sacramento/Bay Area; Los Angeles Area; Other Northern; Other Southern; and, Out-of-State (Attachment 1). Staff reports annually on the continued validity of the regions and the counties within each region.

Now that CalPERS has accumulated five years of data, staff performed an analysis of cost and population changes for the regions and their county compositions over time.

This item reports that, based on our analysis and consultation with Mercer, the current regions and their county compositions should remain unchanged for 2010.

## **V. ANALYSIS:**

### **Criteria for Changing County Region Assignments**

Working with Milliman USA, staff in 2004 developed a method to create county relative healthcare cost factors, formed the five existing regions, and defined criteria to determine when CalPERS should consider changing a county's region assignment. In preparation for the current analysis, staff worked with Mercer to refine the original re-assignment criteria to provide a more robust review methodology.

The refined methodology improved the original criteria in several ways. First, the original criteria stated CalPERS should consider re-assigning a county's region if its relative costs differed "significantly" from its region. The refined criteria set specific numeric thresholds for differences between county and region factors. Second, the original criteria provided that a large change in county costs or enrollment could trigger consideration for region re-assignment. Under the refined criteria, a large change in county enrollment levels alone, without a change in costs, would not be a reason for changing a county's region. Third, the initial criteria recommended year-to-year assessments of county costs and membership. With the new criteria, staff will conduct an assessment every three years using the most recent five years of data. Finally, the new criteria clarify provisions for minimum region size, geography (contiguous counties in a region), and counties that experience large cost fluctuations due to low enrollment.

### Results

Staff applied the refined criteria to the most recent five years of cost and enrollment data (2003 through 2007). The analysis identified four counties that CalPERS should consider for region re-assignment:

- ◆ San Francisco (lower costs than Bay Area/Sacramento region)
- ◆ Solano (higher costs than Bay Area/Sacramento region)
- ◆ Humboldt (lower costs than Other Northern region)
- ◆ Shasta (lower costs than Other Northern region)

Staff also conducted an analysis to determine whether these county/region cost differences existed across all plans. In each of the four counties, there was considerable variance between individual plan costs.

Staff asked Mercer to review the analysis findings and recommend whether CalPERS should assign these counties to a different region, and if so, how it should make those re-assignments. Mercer recommends that CalPERS make no changes to the existing regions at this time, based on the following:

1. Effects of Health Maintenance Organization (HMO) Request for Proposal (RFP): Staff use overall county cost factors to assess the appropriateness of the regions and their county compositions. These overall factors represent an average of each plan's costs in a given county. If, through the RFP, CalPERS changes the service area of existing plans or opts for new carriers, county cost factors could be different than they are today, affecting region composition decisions. Therefore, CalPERS should wait until it completes the HMO RFP process before considering changes to region definitions.
2. Lack of Blue Shield NetValue experience: Experience from the recently introduced NetValue plan is not yet included in the assessment data.

NetValue experience could alter the cost structure in certain counties and might indicate different or additional changes in region definitions.

3. Undesirable disruption to regions: Re-assigning some or all of these four counties would require significantly altering the existing Other Northern and Sacramento/Bay Area regions. CalPERS would need to move several additional counties that are not technically candidates for re-assignment to achieve minimum region size and geographically contiguous counties within regions. While this may be desirable in the longer term, CalPERS should not introduce this much disruption to current regions when program changes are under consideration that may significantly impact region assignments.

Mercer suggests that CalPERS revisit the issue of region definition after it finalizes program offerings and designs for 2011.

Based on Mercer's recommendation, CalPERS should not make any changes to the existing contracting agency regions for the 2010 rate year, and will re-examine region composition for the 2011 rate year.

#### **VI. STRATEGIC PLAN:**

This agenda item relates to Strategic Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

#### **VII. RESULTS/COSTS:**

This is an information item only.

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Office of Health Policy and Program Support

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Attachment